The Russian Economy in December 2001

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Executive Summary

As the OECD economies slide into recession, Russia's economy continues to grow at a healthy pace. After GDP increases of 5.4 and 8.3 percent in 1999 and 2000, the anticipated growth in 2001 is 5.7 percent. This is largely attributable to the remaining impact of import substitution after the 1998 devaluation; the first fruits of Putin's restructuring; the higher than expected world prices for commodities during the first part of 2001; sound fiscal and monetary policies; and to the recovery in investment and private consumption.

Most of Putin's first year in office was devoted to strengthening the power vertical**,** with the passage of a key part of the new tax code perhaps the only significant reform achievement. During the first seven months of 2001, however, the administration initiated, and the Duma passed, many salient measures towards a market economy. Most of these are expected to become law by the end of the year. Another extensive raft of reform legislation is being considered by the Duma in its fall session.

As to prospects for growth, the good news is that Putin's team is committed to push for the restructuring of the economy. Russia is enjoying political and economic stability after the Yeltsin years of turmoil. The Duma is compliant and constructive. Capital investment and personal consumption are up. Barter is down. After seven years of virtual inaction, movement towards WTO accession is visible. With huge foreign trade and current account surpluses, and with comfortable Central Bank reserves, the economy is less vulnerable to external shocks than in past years even if, with half of its exports still consisting of oil, gas, and metals and facing foreign debt service of $33 billion in the next 2 years, Russia is hurt by any prolonged global recession and by low world commodity prices.

There exist several constraints on growth. The core manufacturing sector constitutes a gigantic industrial rust belt. Much of it is located in inhospitable and economically nonviable regions. The infrastructure is obsolete. The level of domestic investment is half of what is necessary for sustained growth. Deterred by a hostile environment, foreign direct investment (FDI) and portfolio investment have been tiny. The banking sector fails to finance production. The already inadequate share of small- and medium-sized enterprises in total output is falling. Demographic realities mean that the workforce will shrink from 2005, while the appalling and deteriorating health situation augurs lower productivity. Corruption is rife at all levels of society. The rule of law has yet to be introduced. An independent judiciary still does not exist.

In the light of the above, we believe that average annual growth during the next few years is unlikely to exceed 4 percent. However, since FDI is the sole variable input that can rapidly boost growth, and since Russian equities are so undervalued, we expect rapid growth in both FDI and portfolio investment.

The Russian Economy in December 2001—Highlights

- The gross domestic product (GDP) grew by 5.4 percent in 1999 and 8.3 percent in 2000. Industrial output increased by 8.1 and 9.2 percent in these years. This recovery, after more than a decade of virtually uninterrupted decline, was primarily attributable to the import substitution effect after the devaluation of August 1998; the increase in world prices for Russia's oil, gas, and commodity exports; the decline in real wages leading to cost reductions; sound fiscal and monetary policies; and to some restructuring. The GDP is expected to grow by over 5.5 percent in 2001 and an average 3–4 percent (depending on world oil prices) in 2002–2005, spurred by increased investment and an upturn in private consumption.
- In the first nine months of 2001, the five key sectors (industry, agriculture, construction, retail trade, and transport) grew by 5.7 percent year-on-year.
- The GDP in 2000 amounted to 7,063 billion rubles ($250.5 billion at the average 2000 exchange rate of 28.2 rubles/dollar), and an estimated $1,014 billion at purchasing power parity. GDP totals of 10,950 billion rubles ($371 billion), 12,420 billion rubles, and 14,260 billion rubles are projected for 2001–2003.
- The federal budget for 2001 foresees revenues and expenditures of 1,193 billion rubles, or 15.4 percent of GDP. Defense expenditures are set at 218.9 billion rubles, or $7.3 billion at the official rate of exchange, compared with the U.S. defense budget for 2001 of $309 billion. The latest draft of the federal budget for 2002 sees revenues of 2,126 billion rubles and expenditures of 1,947 billion rubles.
- Retail price inflation in 2000 was 20.2 percent, and producer price inflation was 32 percent. The 2001 budget projected an inflation rate of 12 percent, but an increase of 15 percent was registered during the first 10 months.
- The exchange rate was 29.94 rubles/dollar on December 6. The real effective exchange rate is expected to grow by 11.6 percent in 2001. The competitive advantage gained from the August 1998 devaluation has been roughly halved.
- Real incomes rose by 9.1 percent in 2000 and are expected to grow by more than 5 percent in 2001. During the second quarter of 2001, about 42 million Russians lived below the then poverty line or subsistence level of 1,507 rubles ($51) a month. The average monthly calculated nominal wage due in October 2001 was 3,473 rubles ($118).
- By October 2001, public sector wage arrears were, it was claimed, practically eliminated, while private sector arrears totaled 34 billion rubles.
- There was virtually no “industrial action” in 2000, with 97 percent of the strikes occurring in the education sector.
- Foreign trade surpluses of $20.2 billion, $19.8 billion, $14.5 billion, $15.1 billion, $36.3 billion, and $61 billion were registered in 1995–2000. The surplus for the first nine months of 2001 was $40.1 billion.

- The current account surpluses were $3.5 billion, $1 billion, $25 billion, $46 billion (19 percent of GDP) in 1997–2000, and $28.2 billion in the first 10 months of 2001.
- The Central Bank's reserves on November 23 amounted to $38.6 billion, including $3.9 billion in gold.
- On January 1, 2000, Russia's Soviet-era debt amounted to $103.5 billion, while the "Russian" debt totaled $54 billion. The gross external debt by July 1, 2001 was estimated to be $156.8 billion.
- Prime Minister Mikhail Kasyanov announced in June 2001 that Russia would not be seeking any restructuring of its foreign debt service in 2002 and 2003, but we expect some forgiveness and/or restructuring before the onerous debt service of $19 billion comes due in 2003.
- After seven years of virtual inaction, Russia is now committed to join the WTO. We expect that accession will not take place before 2004.
- More than two years after the August 1998 crash that left most major banks technically insolvent, few banks have been restructured.
- The share of barter transactions declined from 54 percent in 1998 to 17–18 percent by April 2001.
- After a decade of continuous decline, gross capital investment in 1999 rose by 5.3 percent to 660 billion rubles ($28 billion) or 15 percent of GDP, and then grew by nearly 18 percent in 2000, and to 8 percent year-on-year during the first nine months of 2001—much of it in the oil and pipeline sectors.
- Cumulative foreign direct investment (FDI) since 1991 in Russia by July 1, 2001, amounted to $17.6 billion, compared with over $350 billion in China during the same period. FDI in Russia in 2000 amounted to $4.4 billion out of a global total of $1,270 billion, and $2.9 billion in the first nine months of 2001.
- The average age of Russian manufacturing plant and equipment is more than three times higher than the OECD average. To update or replace it and the infrastructure will take trillions of dollars. This will not be available solely from domestic sources. FDI is expected to grow fast—it may well double by 2005—but will remain much lower than is needed until Russia cleans up its corporate governance act and creates a welcoming environment. This suggests that the annual rate of Russian economic growth in the medium term will not exceed 4 percent. However, this growth rate remains susceptible to the world prices of oil, gas, metals, and other Russian export commodities. Nevertheless, we expect rapid increases in both FDI and portfolio investment. (12/6/01: for updates, contact bush@usrbc.org).

The Russian Economy in December 2001

Recovery after a Long Depression

Starting in 1989, the GDP of the RSFSR, and successor Russian Federation, declined continuously until 1997, when a rise of 0.9 percent was recorded. The drop in output by century end was about 42 percent—a far steeper fall than was recorded during the Great Depression in the United States in the early 1930s. After a decrease of 4.9 percent in 1998, GDP growth resumed in 1999 and 2000, with increases of 5.4 and 8.3 percent[1] respectively. Industrial output grew by 11.0 and 11.9 percent in those years. This recovery is attributed primarily to the import substitution effect after the ruble devaluation of August 1998; the high world price of oil, gas, and other export commodities; tight fiscal policy; the decline of real wages leading to cost reductions; and to some restructuring. The Russian government now projects a GDP growth of 5.5 percent in 2001 to just over 11 trillion rubles ($368 billion). The consensus of best Western projections puts Russian GDP growth in the period 2002–2005 at an annual average of 3–4 percent.

Nine Years of Transition

Annual percentage change	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Gross domestic product	-14.5	-8.7	-12.7	-4.2	-3.5	0.9	-4.9	5.4	8.3
Industrial production	-18.8	-14.6	-20.6	-3.0	-3.5	1.9	-6.6	11.0	11.9
Agricultural production	-9.0	-4.0	-12.0	-8.0	-5.1	0.1	-12.3	2.4	3.0
Consumer prices	2,650	940	320	131	22	11	85	37	21
Real average wages	-41.0	14.0	-8.0	-13.0	5.0	2.5	-13.8	-15.1	9.6
Life expectancy at birth, years									
Men	62	59	57	58	60	59	59	60	60
Women	74	72	71	72	72	71	71	72	72
Federal budget, as % of GDP									
Revenues	16.6	14.5	14.1	13.7	12.5	12.1	11.3	13.7	16.2
Expenditures	27.7	15.9	18.1	16.6	15.6	15.3	14.5	15.0	13.7
Balance*	-11.1	-1.4	-4.0	-2.9	-3.3	-3.2	-3.2	2.2	2.5
Balance**	na	-6.5	-11.4	-5.4	-7.9	-6.8	-7.2	-1.3	1.3

* Excludes debt service
** Includes debt service

Sources: Derived from Goskomstat and IMF reports; *Russian Economic Trends*, quarterly and monthly updates; Bank of Finland, *The Russian Economy: The Month in Review* and *The Russian Economy: The Week in Review*, various issues.

Official Goskomstat statistics for the years 1998 through 2000 were revised in mid-2001, mostly in an upward direction. This was reportedly attributable to the use of a different base year—1999 instead of 1995—and to a higher "guesstimate" for the contribution of the "second" or "shadow" economy.

The most disturbing factors in respect to growth prospects are that most industrial plant, equipment, and infrastructure are obsolete or obsolescent—in late 1998, the average age of industrial plant and equipment was more than 16 years[2] —and that investment dropped by nearly 80 percent during the period 1991–1998. However, for the first time in a decade, investment grew in 1999, by 4.5 percent to 660 billion rubles ($28 billion) or 15 percent of GDP.[3] Investment in 2000 grew by a further 18 percent,[4] mostly retained profits, although the rate slowed to 8 percent year-on-year during the first 9 months of 2001. The level is still too low to underpin a high and sustained rate of growth. Other factors contributing to renewed growth are the lowering of interest rates to almost zero in real terms; anticipated increases in private consumption; and a substantial increase in the share of cash transactions in the economy. By March 2001, some 80 percent of transactions among large- and medium-scale businesses were conducted in cash, against 46 percent in mid-1998.[5]

The exceptionally low rate of investment throughout most of the 1990s is attributable to a variety of factors. These included the low rate of private saving, the budget deficit that absorbed too many investible resources, disincentives provided by the onerous and opaque tax code and legal system, capital flight, and the understandable unwillingness of banks to invest in the real economy when they could earn up to 180 percent on an annualized basis from government bonds.

Much of the decline of the 1990s might be welcomed because it marked the overdue restructuring of the Russian economy toward producing goods and services that meet consumers' demands rather than planners' preferences. Government orders for military hardware, for instance, were reportedly reduced by 80 percent in 1992.

Moreover, in contrast to the command economy where managers had an incentive to *overstate* their output data to over-fulfill plan targets and win bonuses, executives are motivated now to *understate* production totals to evade the tax inspector and the mafia and to have surpluses for sale on the side or for use as barter. Official data are also suspect. Goskomstat was set up to monitor manufacturing output but may not fully capture the activity of the service sector and the black and gray economies. Estimates of the share of the unofficial economy in the gross domestic product range from 22 to 50 percent, with the best Western estimates running at around 40 percent. This share might be expected to decline as and when greater transparency is introduced and as a result of simplified and lower taxes.

Inflation

After most wholesale and retail prices were freed on January 2, 1992, consumer prices increased by 2,509 percent that year. The monetary overhang disappeared overnight, as did lines and the value of people's savings. Tight monetary and fiscal policies brought annual inflation down from 840 percent in 1993; to 215 percent in 1994; to 131 percent in 1995; to 22 percent in 1996; and to 11 percent in 1997. With the economic meltdown of August 1998, inflation rebounded that year to an annual rate of 84.4 percent. Although an inflation rate of 30 percent was projected in the federal budget for 1999, inflation for the year was 36.5 percent.

The annual rate of consumer price inflation for 2000 was 20.2 percent, while the industrial wholesale price index rose by 32 percent.[6] The federal budget for 2001 assumed an inflation rate of 12 percent, although we expect an outturn of around 18 percent. The increase through October 31 was 15 percent. In order to restrain price increases, on August 2 the newly formed Unified Tariff Agency froze the tariffs for the "natural monopolies" through the end of the year,[7] as tariff increases by Gazprom, UES, and the railways accounted for 38 percent of consumer price inflation during the first half of 2001.[8] This will impact appreciably on the profitability of Gazprom, UES, the railways, and Transneft, and it could lead to major price increases at the beginning of 2002. An inflation rate of 11–13 percent is predicted for 2002.

The Federal Budgets for the Years 2001 and 2002

The federal budget for 2001 was signed by the president on December 27, 2000. It projected a GDP growth of 4 percent to 8.3 trillion rubles (now projected at 5.7 percent to 11 trillion rubles or $368 billion). Budgetary revenues and expenditures were set at 1,193 billion rubles or 15.4 percent of GDP, with a primary surplus of 3.1 percent of GDP. The main sources of revenue were scheduled to come from VAT (40+ percent), excise taxes (16 percent), corporate profit taxes (14 percent), and export tariffs (11 percent).[9] Foreign debt service was scheduled to take $14.5 billion in the absence of restructuring by the Paris Club. The budget assumed foreign credits totaling $4.8 billion, including $1.75 billion from the IMF (which will not be forthcoming) and $920 million from the World Bank.[10] Defense was to receive 218.9 billion rubles, or 2.82 percent of GDP, the same as in 2000, while law enforcement and state security were to get 129.6 billion rubles or 1.67 percent of GDP. Social expenditures in 2001 were to rise to 107.3 billion rubles, or 1.38 percent of GDP, compared with 84.8 billion rubles or 1.32 percent of GDP in 2000. The Finance Ministry reckoned that the federal government:regions split in the consolidated budget would be 52.8:47.2, but regional governors feared that their portion would be much smaller.[11] The federal budget for 2001 was based on the assumption of an average annual world price for oil of $21 a barrel.[12] On February 22, the Duma agreed to compromise on the allocation of any federal budget surplus: the first 41 billion rubles would go to foreign debt service, the next 123 billion rubles would be split evenly between foreign debt service and domestic requirements, and anything over 165 billion rubles would be used for foreign debt service. Since then, Andrei Illarionov's concept of a stabilization fund appears to have been dropped in favor of a reserve fund that will be spent at the discretion of the government, without any say by the Duma.

In the first ten months of 2001, the federal budget registered a primary surplus of 4.5 percent of GDP and an overall surplus of 1.6 percent of GDP.

The fourth reading of the draft federal budget for 2002 is scheduled for December 13. The latest projections see an anticipated best-case GDP growth of 4.3 percent and a worst-case growth of 3.5 percent, an inflation rate of 11–13 percent, an exchange rate of 31.5 rubles/dollar, and an assumed price for Urals blend of $18.5 a barrel for expenditure and $23 per barrel (equivalent to about $25 p/bbl for Dated Brent) for revenue purposes. Russia earns an additional $1.2 billion in export revenues for each $1 per barrel in excess of the budget figure. About one-third of this ends up in the federal budget and is available for debt service.[13] The reverse is obviously true. The draft budget provides for revenues of 2,126 billion rubles (19.4 percent of GDP), expenditures of 1,947 billion rubles (17.8 percent of GDP), and a surplus of 178 billion rubles or 1.6 percent of GDP. The preliminary figure for defense expenditure is 282 billion rubles ($9 billion). The 2002 federal budget should accumulate nearly 60 billion rubles ($2 billion) towards a reserve fund ahead of the roughly $19 billion due for foreign debt servicing in 2003.

Earnings, Incomes, Pensions, Poverty

The average monthly calculated nominal wage due in October 2001 was 3,473 rubles, or about $118 at the official rate of exchange. The average monthly pension effective July 1, 2001, was 1,020 rubles ($35). A further 10 percent increase effective August 1 was decreed on July 12. The minimum wage was raised from 83.5 rubles to 132 rubles a month effective July 1, 2000, to 200 rubles a month effective January 1, 2001, and to 300 rubles a month effective July 1, 2001. The Duma has passed a bill raising the minimum wage to 450 rubles a month effective January 1, 2002, and then raising it to the subsistence level in 2003. (The problem is that these laudable increases would cost 2–2.5 trillion rubles, or $68–85 billion, a sum that exceds the annual federal budget).[14] The figure has been critical because many salaries, transfer payments, fines, etc. are set in terms of multiples of the minimum wage. However, the old technical minimum wage of 83.5 rubles was used as a basis until the end of 2000. Thereafter, a technical minimum of 100 rubles a month has been used as a basis of calculation for stipends, allowances, fines, taxes, and levies.[15] The minimum pension effective August 1 has been 660 rubles or $23 at the official rate of exchange. Supplementary benefits for pensioners range between 85 and 150 rubles a month.[16] Between June 2000 and June 2001, real wages grew by 16.7 percent and real incomes by 4.1 percent.[17] It should be noted that money wages and salaries in 1999 accounted for 64 percent of total household income.[18] In May 2001, President Putin claimed that wage arrears in the public sector had been virtually eliminated;[19] on August 1, 2001, private sector arrears totaled 34.1 billion rubles. Real disposable cash incomes were up by 6.5 percent year-on-year in October.

Disparities in income grew until 1996, then leveled off, but have apparently increased again. Incomes of the top 10 percent of earners in April 1997 were reported to be 12.4 times higher than those of the lowest 10 percent, compared with a ratio of 13.5:1 in early 1996; 11:1 in 1993; 8:1 in 1992; and 4.5:1 in 1991.[20] During the first quarter of 2001, the disparity had risen to 14.1:1,[21] while the Russian-European Center for Economic Policy put the gap at 23–25:1.[22] During the second quarter of 2001, according to a preliminary appraisal by the Ministry of Trade and Economic Development, about 42 million people or 29 percent of the population, lived below the then-poverty line or subsistence level of 1,507 rubles ($51) a month.[23] At May 1, 2001, ruble- and foreign currency-denominated household deposits in Russian banks totaled 526 billion rubles[24] in addition to an estimated $16 billion in U.S. dollars, mostly under mattresses.[25] About 74 percent of those polled in mid-2001 said that they had no savings.[26]

Unemployment and Bankruptcy

The workforce on November 1, 2001, was put at 71.3 million. The official number of registered unemployed by that date had fallen to 1 million. For a variety of reasons, the official numbers are misleadingly low, and the November 1, 2001, estimate of unemployment using the International Labour Organization's (ILO) definition[27] was 6.2 million or 8.7 percent of the workforce.[28] When a more comprehensive measure—which included those employed part-time, on unpaid leave, and who experienced "suppressed unemployment"—was used earlier by the ILO, it estimated that Russia's jobless rate stood at 17 million or 23.5 percent of the then workforce.[29] These figures could be even higher if the residual over-employment factor is taken into account: over-employment prior to the transition had been estimated to exceed 20 percent. Enterprises keep surplus workers on their books to avoid additional taxes and redundancy payments, and because labor is a relatively cheap input.[30] The Ministry of Labor and Social Development estimated that the proportion of the wage fund in the prime cost of finished output in Russian enterprises was just 12 percent, compared with over 60 percent in OECD countries.[31] The same ministry reported that wages and salaries at the end of 2000 formed 25 percent of the GDP.[32] The unemployment rate is still relatively low: by the beginning of 1999, GDP and industrial output had fallen by over 40 percent since 1989, but the workforce had declined by only about 15 percent during that same period.[33] The average monthly unemployment benefit has been set roughly at the minimum wage level (300 rubles).

In 1998, more than 55 percent of all large- and medium-sized companies were unprofitable.[34] An authoritative study of Russian privatization, citing Russian national surveys of corporations in 1995 and 1996, concluded that three-quarters of corporations were in need of radical and far-reaching restructuring, and at least one-quarter of these firms should be declared bankrupt.[35] In May 2000, German Gref, the head of the Center for Strategic Research, was quoted as saying that between 25 and 40 percent of Russian enterprises were, or should be, bankrupt, and should be closed or restructured.[36] Relatively few enterprises have, however, been declared bankrupt. Many cases have been bogged down in the courts, exhausting the resources of the federal bankruptcy agency.[37] Threats of bankruptcy have been used increasingly to pressure enterprises into paying their tax arrears; in late January 2000, authorities threatened to institute bankruptcy procedures against 23,328 enterprises that were behind with their tax payments. Wholesale closure or restructuring has been hampered by the need to have a court order before management can be replaced, and it can take up to 18 months to push bankruptcy proceedings through the arbitration court.

More important, bankruptcy proceedings have been delayed or annulled because of the political risk of closing hundreds, perhaps thousands, of enterprises—without an adequate social safety net in place—in what are often one-factory towns.[38] In October 1999, there were said to be 940 single-factory towns, with some 24 million inhabitants.[39] In most of these, the single factory provided not only employment, but also supplied housing, schools, clinics, stores, canteens, market gardens, and even free or heavily subsidized vacation resorts. All of these value-subtracting enterprises are located in the regions, and local authorities have understandably been reluctant to press bankruptcy proceedings. For instance, Sverdlovsk governor Eduard Rossel vowed to prevent the bankruptcy or privatization of the Uralvagonzavod plant employing 25,000 workers.[40] Chelyabinsk governor Petr Sumin announced on April 16, 1999, that he would grant 200 of the oblast's leading firms political protection from bankruptcy. When insolvent state-owned enterprises are sold, the government channels 60 percent of the proceeds to social infrastructure, which has until now been largely the responsibility of the factories themselves.

By May 2001, however, the profitability picture had improved greatly, with 61.5 percent of surveyed enterprises declared profitable.[41] It might be noted that the calculation of profitability was determined using Russian Accounting Standards and not International Accounting Standards.[42]

Strike action is down from a high of 6,001,000 man-days lost in 1997 to 1,790,000 man-days lost in 1999, and to only 236,000 in 2000:[43] of that latter total, 97 percent were accounted for by the educational establishments, where teachers were protesting low wages and wage arrears.[44] The level of work stoppages thus far has been very low by the standards of many OECD nations, and the 2000 figure virtually represented zero "industrial action."

Foreign Direct Investment and Portfolio Investment

Foreign direct investment (FDI) in Russia has remained very low. The totals for 1997–2000 were $4.9 billion, $2.8 billion, $4.3 billion, and $4.4 billion respectively. FDI in the first nine months of 2001 amounted to $2.5 billion. In 1997–2000, Russian direct investment abroad amounted to $2.9 billion, $1 billion, $1.8 billion,[45] and $3.1 billion[46] respectively. The cumulative figure for FDI in

Russia from 1991 through July 1, 2001 has been given as $17.6 billion,[47] or only 5 percent of domestic fixed capital formation. These totals may be compared with FDI in China of $46 billion in 2000 alone,over $200 billion awaited for the United States in 2001, and global totals of $827 billion of FDI in 1999, $1,270 billion in 2000, and an anticipated $760 billion in 2001.[48] In cumulative terms, the largest investors in Russia by the end of 2000 were the United States, Cyprus, and Germany. The prominence of Cyprus indicates returning flight capital. Most of the FDI went to the fuel, food, trade, catering, and transport sectors.

Some of the principal reasons for this meager share of global FDI include political instability during the Yeltsin era; a capricious, changing, and exorbitant tax regime; unpredictability and lack of coordination of government policies; pervasive corruption; exclusion of foreign interests from some privatization auctions; lack of bilateral investment treaties; lack of the rule of law; absence of contract law; lack of commercial infrastructure; limits on foreign banks; constant changes in legislation affecting foreign investors; no clear property rights; capital dilution; transfer pricing, absence of International Accounting Standards, inability of foreigners to own land, and the predations of organized crime.

Prominent figures in the administration and legislature have argued that Russia does not require foreign capital and can finance all needed investment out of its own resources. This is an internal debate that has yet to be resolved. Much will depend on personalities, such as Sergei Glaziev, the chairman of the Duma's Economic Committee. Indeed, the first Gref long-term program emphasized domestic rather than foreign direct investment. There can be little doubt that Russian industry needs massive reequipment: the average service life of the active portion of fixed capital is about three times longer than in OECD countries.[49] Former prime minister Chernomyrdin estimated that Russia could use up to $50 billion of foreign investment each year. Former economics minister Yevgeni Yasin reckoned that, in the next 20–25 years, Russia would require some $2.5 trillion in investment, of which one-quarter could come from abroad.[50] Pent-up demand for consumer services is exemplified by the telephone system. It has been calculated that it will cost at least $40 billion and take many years for Russia to increase telephone penetration to 20 lines per 100 inhabitants (against 61 lines in the United States).[51]

Meanwhile, Russia has stayed near the bottom of the investment league. Russia led the list as the riskiest business location for U.S. and UK companies during the first half of 1999, according to a survey by Merchant International Group.[52] It retained this dubious honor for the third quarter of 1999. In the 1999 *Global Competitiveness Report*, produced by the World Economic Forum, Russia came in first for the highest levels of corruption, bribery, crime, tax avoidance, and violence. It also placed last out of 59 countries for competitiveness.[53] A Gallup poll taken in early 2000 placed Russia in the top 20 most corrupt countries.[54] A Milken Institute study of March 2000 put Russia last out of 80 countries in terms of access to global capital and financial markets, and placed it at number 52 in terms of openness to foreign trade.[55] Moscow has been placed last or next to last since 1994 in an annual rating of which cities are desirable places in which to do business.[56] Transparency International ranked Russia at 79th out of 91 countries in 2001 for corruption.[57]

Horror stories abound. Documents allegedly leaked from the Federal Counterespionage Agency, published in January 1995, accused some leading Western investors of attempting to "guarantee the technological backwardness of Russia."[58] Pages have been torn from shareholder registers. Western partners have been squeezed out of successful joint ventures. Komineft instituted what amounted to a 3-for-2 stock split without informing existing shareholders and diluted most holdings.[59] Many enterprises, it is said, now keep three sets of books: one for themselves, one for the authorities, and one for foreign investors.[60] The Moscow office of Johnson & Johnson was seized for alleged failure to pay some $20 million in back taxes, and warrants were issued for two of its expatriate executives. On June 20, 2000, the Moscow City Prosecutor's Office filed a suit in an arbitration court to invalidate the auction of the stocks of Norilsk Nickel—a move hardly likely to encourage potential foreign investors.

The rejection, in August 1997, of Exxon's tender offer for the development of oil deposits in the Nenets region marked the first time that the Russian government had changed its mind over a highly contested and controversial foreign investment decision.[61] In the opinion of a member of the then-extant Gore-Chernomyrdin Commission: "It raises the question of whether a deal is a deal in Russia, because Exxon is meticulous to a fault in following the letter of the law."[62] Another major blow to Western investor confidence came with the apparent breakdown of talks over Amoco's $28-billion, 58-year project to develop the Priobskoye oil field in Siberia in collaboration with Yukos.[63] In the dispute between Aeroflot and IMP over the joint venture Aerostar Hotel in Moscow, IMP won a $5.8-million judgement by the Arbitration Institute of the Stockholm Chamber of Commerce. The ruling was upheld by the Russian Supreme Court, but Aeroflot still refused to pay.[64] Later, threats to defraud Conoco and other foreign companies out of their stakes in regional mining projects provoked a protest by the U.S. embassy to the governor of Archangel.[65] On March 17, 1999, the Duma passed on first reading a bill to limit foreign voting stakes in 1,150 "strategic" companies to 25 percent of capital (i.e., one share less than a blocking stake).[66]

Receptivity toward foreign direct investment varies greatly between regions. According to a recent World Bank working paper, nearly 60 percent of FDI goes to four regions in the west of the country—Moscow City, Moscow Oblast, St. Petersburg, and Leningrad Oblast,[67] whereas Sverdlovsk Oblast is accused of exhibiting a particularly hostile environment towards FDI.[68] The State Duma prior to the December 1999 election showed itself to be generally hostile to Western investment in what it considered to be strategic sectors of the Russian economy.[69] On July 15, 1998, when it gave a third reading to a federal draft law—"On Foreign Investment in Russia"—it passed an amendment to the grandfather clause in earlier legislation that appeared to have the effect of watering down investor protection,[70] but this was subsequently vetoed by President Yeltsin.[71] In another field, legislation was passed in June 1999 that could "literally confiscate assets that U.S. and European insurance firms had already invested in the Russian economy."[72]

The first two months of 2000 saw the settlement of some long-standing grievances and the reversal of some troubling actions against external partners and shareholders. Thus BP Amoco and Dart appear to have resolved their disputes with Yukos, foreign investors regained control of the Lomonosov porcelain plant, and British Alcem reinstated its management of the Vyborg paper mill. It might have been a coincidence, or perhaps the Putin administration applied pressure to improve the investment climate. By November 2001, the Audit Chamber had initiated investigations into some of the allegedly most corrupt agencies, such as the Emergency Situations Committee, the Ministry of Railways, the State Fisheries Committee, the State Customs Committee, and the Media Ministry. Whether these actions represented a fight against corruption at the top, targeted attacks against associates of "The Family," or merely a quest for sources of additional funding, is not clear.

On June 28, 2001, Standard & Poor's upgraded its sovereign rating for Russia from B- to B.[73] Subsequently, Moody's raised Russia's long-term foreign currency issuer rating and its eurobond rating to B2, while Fitch upgraded Russia's long-term foreign currency rating and its eurobond rating to B+.[74] This followed other signs of a renewal of Western interest in Russia, symbolized perhaps by the return of Pizza Hut and Kentucky Fried Chicken to Moscow, the announcement of a Ford plant in Vsevolozhsk,[75] and the first steps towards a massive LNG plant on Sakhalin. General Motors has joined the queue, even if it has seen fit to put a "poison pill" into its joint venture with AvtoVaz in the event of any takeover or change in ownership at the Russian carmaker.[76] But FDI in Russia remains very low and has a long way to go before it makes a substantial contribution to Russia's long-term growth prospects. Priority must clearly be given to the universal adoption of International Accounting Standards, so that foreign investors will understand where they are putting their money. Potential investors will also be watching for progress in upholding contractual agreements and the strengthening of the judiciary. One aspect of corporate governance is showing a gradual improvement: outsiders have been voted to the boards of Sberbank, Aeroflot, and Gazprom, among others.[77] Generally speaking, it is probably true to say that Russian enterprises with external exposure are improving their corporate governance, although horrors of governance and settlements still occur as with the forcible takeover of Yugraneft Corporation, a Russian subsidiary of Norex Petroleum by TNK, the armed seizure of Alstom SEMZ in mid-2001, and ADC's claim against contract violation by its Russian partner, Arkhangelskgeoldobycha.[78]

At the end of August 2001, it was announced that the Main Directorate for Combating Economic Crime of the Ministry of Internal Affairs had taken control over the biggest investment projects involving foreign capital.[79] Once major improvements in corporate governance are made, we expect FDI to rise appreciably, starting in 2001, but its volume will long remain under the level necessary for the colossal replacement and renewal of plant and infrastructure that is required.

At the end of 2000, Standard & Poor's launched a product that would allow the ratings of individual Russian companies according to corporate governance standards.[80] On September 18, 2001, the second draft of a Corporate Conduct Code was published by the Federal Commission for the Securities Market (FCSM). This drew upon the May 2001 document that originated with the Moscow investment community and that was refined by Coudert Brothers. After public discussion, a third and final draft was scheduled to be submitted to the government before the end of November. The second draft outlines a code which will not be legally binding, but which will be buttressed by subsequent laws and other regulatory provisions. It is aimed at corporations with over 1,000 shareholders, whereas many might stress its applicability to small- and medium sized enterprises, which represent Russia's best hope for vigorous and sustained growth. Another feature of the draft that has drawn criticism is that it is too long (68 pages) and too complex.

Russia's tiny stock market has given portfolio investors an exciting ride. The RTS index rose in one year by over 300 percent to 571 points on October 6, 1997, then plunged to 46 points by September 29, 1998. Whereas $8.3 billion of portfolio investment flowed inward in 1998, $900 million flowed outward in 1999.[81] By January 3, 2001, the index had fallen to 130 points, then peaked at 227 on June 22, before dropping to the 170-range in August, and rising to 243 on November 14 before falling again. Foreign investors seemed to be staying away from Russian equities as long as corporate governance was spotty and minority shareholders abused.

In April 2000, foreign portfolio investment in Russia stood at 105 billion rubles.[82] In April 2001 the entire market capitalization, according to President Putin, was only $50 billion,[83] or less than the valuation of Disney or Coca-Cola. As an illustration of the under-valuation of some Russian equities, in August 2001 Gazprom had a market value of $12.4 billion, compared with $299 billion for Exxon Mobil Corp. If Gazprom were valued at the same level as Exxon per barrel of hydrocarbon reserves, it would be valued at $1.8 trillion, or 145 times its market price at that time.[84] In another illustration, a megawatt of generating capacity at UES is worth $52,000 (market capitalization, plus debt, minus cash on hand, divided by megawatts owned), while the comparable figure for Duke Energy is $3 million.[85] This substantial under-valuation suggests that portfolio investment into Russia may be a star performer in an otherwise subdued world equities market in the coming months.

Production-Sharing Agreements

A production-sharing agreement (PSA) is considered essential for attracting large-scale and long-term foreign direct investment in the extractive sector: it must be transparent; it establishes the share of revenue or output that is claimed by the host government and the shares accruing to the investors; it provides for neutral arbitration; it establishes the tax regime over the duration of the undertaking; and thereby goes far to guarantee that investments will be recovered. Oil majors, for instance, are unlikely to commit billions of dollars to a site that will yield uncertain profits only after many years without the security of a PSA. With an estimated 49 billion tons of oil equivalent in proven reserves (48.6 billion barrels of oil and 48,159 billion cubic meters of gas), Russia would seem to be a promising host for PSAs.

An admittedly defective compromise production-sharing agreement (*Soglashenie o razdele produktsii)* was passed by the Duma on December 6, 1995, and was signed into law by then-President Yeltsin on December 30, 1995. At the time that the law was signed, three existing projects—Sakhalin-1 and Sakhalin-2 oil and gas projects, and the Kharyaga (Timan Pechora) project signed with Total in 1995—were grandfathered. Since the signing of the PSA law, implementation has been held up as supporting legislation, tax laws, and subsoil usage laws have not been brought into coordination. Further qualifications and conditions have been introduced, including specifications that every PSA had to have a Russian partner; that 80 percent of the manpower engaged must be Russian; that 70 percent of equipment and services must be supplied by Russian firms; that the PSA not involve more than 30 percent of the registered ABC1 recoverable reserves (in March 2001 the Duma rejected an increase from 30 to 40 percent); and that each site be approved by the Duma. This last provision has proved particularly irksome. Indeed, Atlantic Richfield Company (ARCO) withdrew from the Sakhalin-4 gas project in February 2000 because of the delay in getting Duma approval.[86] Some of the limitations may have to be removed or amended before accession to the WTO is granted.

Since his inauguration, President Putin has repeatedly called for the wider adoption of PSAs in the exploitation of mineral deposits. A flurry of activity in August 2000 and an international conference on production sharing held in Yuzhno-Sakhalinsk on September 1–3, 2000, drew attention to the modest progress made to date and provided the occasion for exhorting greater forward movement. A presidential decree was issued to the effect that PSA projects would henceforth be handled by German Gref's Ministry of Economy and Trade and not dispersed as hitherto among three ministries.[87] (The decree was not put into effect until February 2001.[88]) It has been claimed that as many as 1,700 separate approvals are needed to launch a PSA, and that the process can take several years.[89] In March 2001, German Gref announced plans to set up a state body that will "carry out the entire complex of work connected with PSAs."[90] Ironically, Gref is said to be skeptical about the value of PSAs in developing deposits.

Several senior members of the government, including Kasyanov, Gref, and Garipov, have complained that the first two grandfathered PSA projects on Sakhalin have proved to be disadvantageous for the Russian side, but they have implicitly conceded that any amendment of terms now could prove disastrous for attracting further investment. At the PSA conference, Gref spoke of the possibility of attracting up to $85 billion of foreign investment to PSA sites before 2008.[91] He promised that a package of 16 legislative acts on PSAs would be ready by the end of 2000, but much remains to be done in the way of passing normative and regulatory acts to implement PSAs, and integrating PSAs into the tax regime. Despite a contract that guaranteed TotalFinaElf the right to export 100 percent of its production, the company was able to export only 8 percent.[92] Warnings have been aired about environmental damage incurred at existing PSA deposits,[93] although protection of the environment has not been a major consideration during any oil or gas exploitation hitherto in the Russian Federation.

Opinions vary about the prospects for further PSA development in Russia. On the one hand, President Putin has urged a speeding up of implementation of projects in the pipeline and the completion of enabling legislation and tax laws. The liquefied natural gas project on Sakhalin is expected to attract up to $11 billion in foreign investment. On the other hand, some Russian oil companies reckon that they can find adequate financing for new deposits without foreign participation. Furthermore, given their collusion with the existing regime of export pipelines, they can exclude foreign partners from onshore sites and will look for outside participation only for the more problematic offshore deposits.

Foreign Trade

Foreign trade recovered quickly after the abrupt severing of ties with the other former Soviet republics and with Comecon, growing for several years while GDP declined. Merchandise trade surpluses have been huge (see table below), culminating in a surplus of $61 billion in 2000. With exports at $76.4 billion and imports at $29.4 billion, the surplus for the first nine months of 2001 was $47 billion.

Capital flight continues, although estimates of its scale vary greatly. A consensus of the best Western estimates of cumulative capital flight is around $150 billion. Much or most of this capital is legal and could rapidly return to Russia once its owners feel that they can trust the government and the banking system. The reasons for the massive scale of capital flight include political instability, loss of confidence in the ruble as a store of value after the high inflation of 1992, the desire to avoid excessive and arbitrary taxes, and the continuing poor protection of property rights. There were indications that the scale of net capital flight in 1999 declined markedly with an influx of capital from Cyprus, Israel, and other havens. The outflow picked up again in 2000, but declined during the first half of 2001 to an estimated $5.1 billion.

Russia had been on the priority watch list of the G7's Financial Action Task Force (FATF) as a source of organized financial crime and money laundering. After the Duma passed several anti-money-laundering laws in July, the FATF removed its call for additional countermeasures against Russia, although it has kept Russia on the list of "non-cooperative" countries until the laws are seen to have been implemented.[94]

The Foreign Trade of Russia, 1995–2000

($ billions in current prices, incl. shuttle trade)

	1995	1996	1997	1998	1999	2000
Exports	81.1	88.6	88.2	74.2	75.8	105.5
incl. crude & products	17.3	23.1	21.9	14.5	18.8	36.1
incl. natural gas	10.8	15.8	16.4	13.3	11.4	16.6
Imports	60.8	68.8	73.7	59.1	39.7	44.9
incl. machinery & eqpt.	15.8	14.6	18.5	15.6	9.9	10.6
Trade Balance	20.2	19.8	14.5	15.1	36.1	60.6

Source: RECEP, *Russian Economic Trends*, July 2001, Table 9.

Crude, petroleum products and natural gas are Russia's principal export commodities, accounting for half of the export earnings in 2000. That year, Russia exported 135.7 million tons of crude (up 9 percent year-on-year), 62.4 million tons of products (up 23 percent year-on-year), and 176.7 billion cubic meters of natural gas (down 6 percent year-on-year).[95] Despite drops in oil output in the early 1990s, domestic consumption also fell, and oil exports continued to rise. Export earnings and budget revenues are greatly affected by the world price of oil: as mentioned earlier, it has been calculated that a change of $1in the price of a barrel of crude oil changes Russian export revenues by $1.2 billion, and one-third of this accrues to the federal budget. Throughout the 1990s, a growing share of Russia's oil exports went to the "Far Abroad," with only 7.1 percent of the total shipped to CIS countries in 1999. Russia has declined invitations to join OPEC or, despite lip service, to limit its exports by other than token amounts, and is expected to ship over 150 million tons (3.1 mbpd) in 2001; this may rise to nearly 200 million tons in 2002. Troika Dialog is forecasting an average price of $18 p/bbl for Urals blend in 2002 and 2003.[96]

In late November 2001, most of the Russian oil majors initially refused to obey OPEC's call for a cut in output. Troika Dialog has suggested some of the key variables affecting Russia in the oil price matrix. The federal budget is likely to remain in surplus if oil stays above $15 p/bbl, and most Russian majors will be profitable above the $11–13 p/bbl range. The Russian government's game plan appears to be to raise export levels as fast as possible from its current 3.3 mbpd to over 5 mbpd by the end of 2005, counting on a price then of $15 p/bbl for Urals blend. Yukos CEO Mikhail Khodorkovsky explained that temporary "operational" cuts in Russian oil output would be very harmful to the mechanized wells operating in the harsh Siberian climate. Even a temporary shutdown would mean irreplaceable losses in terms of fixed assets and oil in the subsoil.[97] Nevertheless, on December 5, the Russian government announced that oil exports would be cut by 150,000 bpd, starting January 1, 2002.

Russia's current account recorded surpluses of $11.8 billion, $2.1 billion, $0.7 billion, and $24.7 billion in 1996, 1997, 1998, and 1999 respectively, then a huge $46.3 billion or 19 percent of GDP in 2000. The current account surplus for the first nine months of 2001 has been estimated by the Central Bank of Russia (CBR) at $28.2 billion. On November 23, the reserves of the CBR amounted to $38.6 billion, including $3.9 billion in gold, after the CBR transferred $702 million to the IMF in early payment of debt. Viktor Gerashchenko has declared that an optimal level of reserves would be $45 billion to provide ruble stability while foreign debt is serviced.[98]

Arms sales have accounted for a substantial share of Russia's exports: values for 1995, 1996, 1997, 1998, 1999, and 2000 are estimated at $3.0 billion, $3.4 billion, $2.6 billion,[99] $2 billion, $2.8 billion, and $3.8 billion respectively.[100] A total of around $4 billion is expected for 2001. Revenues from the export of nuclear materials and technology have also been high, earning $2.05 billion, $2.2 billion, and $2.5 billion in 1995, 1996, and 1997 respectively.

WTO Membership

Russia first applied to join the General Agreement on Tariffs and Trade (GATT) in June 1993, and its successor, the World Trade Organization (WTO) in December 1995. It is probably true to say that the successive governments during the Yeltsin era did very little to further Russia's accession to the WTO.

Little progress has been made, for instance, in the area of intellectual property rights (IPR). As in many instances throughout the economy, it is a matter not so much of laws on the books but of observance and implementation. So much so that in April 2001 the director of the Russian Patent Agency took pride in the fact that only 60–70 percent of audio and video production was pirated, compared with 90 percent a few years earlier.[101] Adequate IPR legislation exists but it is not observed. Trademark counterfeiting in clothing, footwear, household chemicals, and pharmaceuticals is rampant. In May 2001, Russia was retained on the Special 301 Priority Watch List by the U.S. trade representative. In September 2000, it was estimated that Russian duties averaged some 15–16 percent, or roughly twice the WTO norm. Restrictions on foreign banking and insurance services run counter to WTO provisions. Universal adoption of International Accounting Standards is not expected before 2004 at the earliest.

During his talks with Western leaders, President Putin has stressed the desirability of a rapid accession for Russia into the WTO, with the aim of concluding negotiations by the end of 2001 and entry in 2002. He has put German Gref's Ministry of Economic Development and Trade in charge of the process. Gref has muddied the waters somewhat, however, by declaring that Russia first wants to join the WTO, and then think about such technical details as the liberalization of tariffs.[102] During a meeting in Moscow with WTO director-general Mike Moore, President Putin is reported to have requested a transitional period for Russia of up to seven years.[103] The environment for expediting Russia's accession has, however, improved appreciably since the re-alignment with the West in the wake of the September 11 attacks.

Considerable progress has been registered in preparation for WTO accession since Putin came to power, including legislation on antidumping, import licensing and certification, and the customs code. A serious obstacle to Russia's accession to the WTO, however, may prove to be the Duma. Although this has been most cooperative in passing legislation initiated by the government since Putin came to power, a combination of special interests and growing protectionism could occasion delay in initiating and in passing the substantial amount of legislation—one estimate speaks of 72 separate laws—required for accession. Few industrial leaders and key legislators seem aware of the scale of changes necessary to qualify for WTO membership, and 2004 may be a more realistic date for Russia's admission than the current target date of 2002. Resistance from key sectors and interests, delays in drawing up and passing legislation as well as growing nationalist sentiment in the Duma may delay accession beyond even that date. On August 20, the government sent the Duma a list of legislative amendments required for Russia's accession to the WTO and requested approval by the end of 2001.[104]

By mid-2001, there were conflicting signals emanating from the Russian government as to whether it really wanted to join the WTO. At the European Economic Forum in July, Prime Minister Kasyanov complained of nitpicking by the WTO, restrictions on Russian exports, and of the failure of the European Union to recognize Russia as a country with a market economy.[105] Other Russian officials have criticized WTO demands that Russia should adjust its foreign trade legislation to WTO standards, as well as cut subsidies to the agricultural sector and remove tariff barriers to imports, before accession negotiations resume. At the "Crawford Summit" of November 2001, one of the agreements reached was a call for "Russia to be included in the WTO once it negotiates a 'protocol package' with commitments on market access terms and trade reforms."[106] This sounds too bad to be true. On November 18, a spokeswoman for the Ministry of Economy and Trade announced that foreign participation in the banking sector would be restricted to 25 percent, in the insurance sector to 15 percent, and to 75 percent in the stock markets[107]—hardly the spirit of WTO accession.

Exchange Rate

On December 6, the rate was 29.94 rubles/dollar. During 2001, the ruble is expected to depreciate by 6.4 percent against expected inflation of 18 percent, with an appreciation of 11.6 percent in the real effective exchange rate. Effective January 1999, exporters had been obliged to convert 75 percent of their export revenues on the market, but on July 20 the repatriation requirement was reduced to 50 percent. The budget for 2000 was based on an average annual exchange rate of 32 rubles to the dollar, but the outturn was closer to 28.2 rubles/dollar. The federal budget for 2001 assumed an annual average exchange rate of 29.5 rubles/dollar and a rate of 31.5 rubles is projected for 2002.

External Debts and Credits

As of January 1, 2000, Russia's sovereign debt amounted to $157.5 billion: $103.5 billion of the sovereign debt was inherited from the former Soviet Union, while new "Russian" debt amounted to $54 billion. On February 21, 2001, the Ministry of Finance put the debt at $148.7 billion[108] (i.e., equivalent to about one-half of anticipated GDP in 2001). With interest growing faster than repayment of principal, by July 2001 the gross external debt was estimated to be $156.8 billion.

The Russian government is scheduled to pay $10.5 billion in 2001 on its Paris Club debt ($4.5 billion on principal and $6 billion in interest due). Its total foreign debt service in 2001 is scheduled to be $14.5 billion,[109] $14.2 billion in 2002, $19 billion in 2003, and over $16 billion in 2004—although the precise figures will depend on the Euro-U.S. dollar rate of exchange in those years.[110] At the beginning of 2001, Prime Minister Mikhail Kasyanov announced that Russia would not fully be servicing its foreign debt that year. In view of the huge foreign trade and current account surpluses registered in 2000, this demarche raised a storm of protest, with the most vehement criticism coming from Germany, which is Russia's largest creditor. Kasyanov and his colleagues have now pledged to service Russia's debt fully without recourse to restructuring in 2001–2003.[111] We feel, however, that the Russian government may request restructuring of the Soviet-era debt before the peak debt service of about $19 billion comes due in 2003.

In October 2001, however, Finance Minister Aleksei Kudrin announced that Russia would prepay some $2.7 billion to the IMF, and it has already prepaid some $1 billion that month. This early payment is aimed at upgrading Russia's debt ratings and to withhold budget surplus moneys from allocations by the Duma. The Finance Ministry has announced that it plans to borrow up to $2 billion on international capital markets in 2002.[112] In an important symbolic move, on November 27 Russia repaid in full its first sovereign Eurobond issued in 1996. This is the first time, according to Troika Dialog, that Russia has fully repaid or redeemed a debt instrument without some restructuring of the original terms.[113]

As of December 2000, Russia's indebtedness was offset—on paper at least—by the estimated $86.6 billion owed (half of it for military hardware) to the former Soviet Union, and hence to Russia, by former client states such as Cuba, Mongolia, Vietnam, Iraq, Afghanistan, Angola, North Korea, Mozambique, and

Ethiopia, and by other states like India, Algeria, Libya, Syria, Yemen, and 43 other nations.[114]

This figure and earlier estimates of up to $149 billion appear to derive from an original aggregate of 96.4 billion transfer rubles converted at $1=0.63 rubles, and thus are subject to some dispute. Most of these debtor nations are, in any case, either insolvent or unwilling to repay. Indeed, the head of Vnesheconombank, the government's debt agent, reports that Russia can realistically expect only $20–25 billion of this sum to be repaid.[115]

During 2000, only 14 of the 80 debtor nations had made payments on their debt. By November 2000, Russia had received $662.3 million from its debtors in that year,[116] and the draft budget for 2001 appears to be counting on the repayment of $886 million from debtor countries, including $595.1 million from India, $29.3 million from Cuba, and $10.1 million from China.[117] Towards the end of July 2001, it was announced that Russia had written off some $572 million owed to it by 23 HIPC or heavily indebted poor countries.[118] In the post–September 11 environment, more calls are being heard to the effect that Russia's Soviet-era debt be written off. If this happens, it is to be hoped that Russia will, in turn, write off the Soviet-era debts of third-world countries. These surely qualify as vicious debts, since most of them were incurred for deliveries of Soviet military hardware to regimes that have long since disappeared. These debts also go some way to explain why Russia retains close ties with such less than salubrious partners as Iraq, Syria, Libya, and North Korea.

Assets abroad of the former USSR, now accruing to Russia, are valued variously from $2 billion to $600 billion,[119] although these too may be hard to realize. In November 1999, the State Property Ministry declared that it owned 2,773,000 square meters of property abroad, with a total value of $3.2 billion.[120] Another source asserted that the federal government owns 1,500 to 29,000 facilities abroad, valued at roughly $400 billion.[121] The value of the holdings of the Kremlin's Property Department was put at $650 billion.[122] Take your pick. The commercial debt of the former USSR, consisting of the debts of former Soviet foreign trade organizations on contracts concluded prior to December 31, 1991, is estimated at not more than $6.4 billion.[123]

Tax Code

The overall aim of the Putin/Kasyanov administration has been to reduce the nominal tax burden from the current 43 percent of GDP to 35 percent of GDP by the end of 2003, to simplify the tax code, and to lower tax rates with a view to encourage and enforce payment, thereby improving the business environment. Revenue collection rate improved greatly in 2000 climbing to 90 percent in the first quarter of 2001, with the share of noncash tax payments declining from 40 percent in December 1999 to 10–15 percent by mid-2000, and tax revenue as a share of GDP increasing from 14 percent in 2000 to an anticipated 16 percent in

2001. The number of taxes that may be levied on an enterprise at federal, regional, and local levels has been reduced from over 50 to less than half that number.

On August 6, 2000, President Putin signed the second part of the new Tax Code into law. Its relatively swift passage through the Duma and its approval by the Federation Council (on July 26 by 128 to 13) was a major achievement for the president. Its principal provisions are a flat 13 percent income tax for residents instead of the previous sliding 12–30 percent tax; the reduction of the turnover tax from 4 to 1 percent until it is abolished in 2003; the unification of the social tax for employers, with rates of 35.6 percent for annual incomes below 100,000 rubles, 20 percent for incomes between 100,001 and 300,000 rubles, 10 percent for incomes between 300,001 and 600,000 rubles, and 2 percent for incomes over 600,000 rubles; and a reduction in the number of exemptions from the VAT which remains mostly at 20 percent. Excises are to be raised on most alcoholic beverages other than beer, as well as on cigarettes and tobacco. The amendments to the Tax Code were incorporated in the budget for 2001 and came into effect on January 1, 2001.

Before the Duma recessed in July 2001, it had passed in third reading further amendments to the second part of the Tax Code. The rate of corporate profit tax was reduced from 35 to 24 percent, and many tax breaks and deductions were scrapped. One-third of the corporate profit tax will go to the federal budget and two-thirds to the regions.

The Banking Sector

The Russian banking sector is highly underdeveloped. Loans to the private sector and to nonfinancial public enterprises at the beginning of 2000 amounted to some 14 percent of GDP, compared with 80–120 percent in West European countries. Total assets of commercial banks on August 1, 2001, were 2,703 billion rubles ($91 billion). By July 2001, the number of banks had been reduced to 1,281. Commercial banks have been reluctant to lend on a long-term basis or to small- and medium-sized enterprises. They financed only 3 percent of corporate investment in the first half of 2001 and have been reluctant to participate in Russia’s fledgling mortgage market.

Much has been said or written since the August 1998 crisis about the need to restructure the banking sector, but little appears to have been accomplished. The IMF has repeatedly criticized the Central Bank of Russia (CBR) for failing to regulate; for not withdrawing operating licenses from insolvent institutions; for allowing asset stripping; for running commercial banks; and for withholding information. Two years after the crash of August 1998, an authoritative observer put the blame on the CBR: “Supervision of the banking sector is still very weak, capitalization is still low, and management on the whole is still very bad.”[124] One critique made the following accusations. Only two major banks, Inkombank and Menatep, have been officially bankrupted. Even then, the Yukos Group switched Menatep’s business to sister structure Menatep St. Petersburg. The CBR poured stabilization credits into "socially important" banks such as SBS-Agro with little result, bridge banks have been created and assets transferred. Uneximbank moved business to Rosbank; Rossiisky Kredit created Impeksbank; and SBS-Agro set up First Mutual Credit Society.[125]

In April 2001, a joint statement of the Cabinet and the CBR, with the blessing of the IMF and World Bank, outlined some long overdue measures for the overhaul of the banking sector. These included expanding the activity of banks with foreign capital from the current limit of 12 percent of total capital; the separation of the functions of Vnesheconombank in respect of crediting activities and servicing the foreign debt; the withdrawal of the CBR from the capital of Vneshtorgbank effective January 2002; the introduction of International Accounting Standards by 2004; and the handing over by the CBR of its foreign-based subsidiaries to Vneshtorgbank.[126]

On July 16, 2001, the Russian Union of Industrialists and Entrepreneurs (RSPP) presented its own blueprint for radical reform of the banking sector. This would cut the number of banks with full general licenses from about 250 to 40 or less. It proposed raising the minimum capital requirement for fully licensed banks to $100 million, the universal and immediate introduction of International Accounting Standards, and better regulatory control.[127] Critics argued that the proposal would lead to the sector being taken over by a few dozen privileged banks close to the government.[128]

Both sets of proposals acknowledge the need for more transparency and competition—including more foreign banks—and call for a more active role in financing the real sector. The RSPP proposal appears to have been disregarded.

IMF

By July 1, 2001, it was reported that the Russian government owed the IMF $7.9 billion, out of a total of $22 billion lent since 1992. It appears that Russia paid the $3.6 billion due in 2000 and is currently on schedule to pay a further $2.067 billion in 2001.[129] Moreover, repayment has started ahead of schedule in 2001 on the $2.7 billion owed on a loan to the CBR in 1998.

At the end of March, it appeared that the Russian government had declined a precautionary credit facility with the fund for the year 2001, but was continuing to seek IMF approval of its economic programs for the longer term. This IMF staff-monitored approval could be necessary if Russia encounters external difficulties and must approach the Paris Club for further rescheduling of part of its foreign debt, especially when debt service may rise to as much as $19 billion in 2003.

World Bank

On the occasion of the visit of World Bank president James Wolfensohn to Moscow in July 2001, Putin announced that Russia was cooperating with the bank on projects worth a total of $12 billion, including $4.8 billion already spent. This made up more than half of the bank's total portfolio.[130] Problems arose when the bank offered a $100-million loan to eradicate TB in Russia and a $50-million loan to help combat AIDS.[131] These ran into opposition from the Russian medical and pharmaceutical establishments. Loans amounting to nearly $600 million were approved for the fiscal year 2001: of this total, some $80 million was to be allocated for a Northern Out-Migration Pilot Project aimed at moving people from the extreme north.[132] This could be a precursor for an enormous relocation program, since more than 10 million now live in the North and there are 11 cities of more than 200,000 located above 60 degrees latitude where human habitation is economically hardly viable.[133]

The Composition of the Duma

Voter turnout for the Duma elections on December 19, 1999, was 61.8 percent, far higher than equivalent counts in the United States or in most West European countries. On January 21, 2000, the CPRF was the largest faction in the new Duma with 90 seats, followed by Unity with 82, FAR with 45, the Union of Right-Wing Forces with 32, People's Deputy Group with 57, Russian Regions with 41, Agrarian-Industrial Deputies' Group with 3, Yabloko with 21, and the Zhirinovsky Bloc with 17.

By November 2001, the political composition of the Duma had shifted appreciably in President Putin's favor. Pro-Putin factions could boast 237 seats (Unity-84; People's Deputy-62; Fatherland-47; and Russia's Regions-44), while other factions amounted to 212 seats (CPRF-84; Agrarians-42; Liberal Democrats-12; Right Forces-33; Yabloko-19; and Independent-22).[134] The LDPR and the Right Forces can usually be counted on to support the government. It therefore looks as if Putin will be able to continue to push his agenda through the Duma. An early test will be the Duma's approval or otherwise of the draft federal budget for 2002. Further delaying tactics, if not outright opposition, however, may be expected from both the administration and the legislature in the fields of PSA approvals and some of the legislation required for WTO accession.

Reflecting the pragmatic, if cynical, deal between the CPRF and the Unity bloc on January 18, 2000, the following distribution of the slots for speaker, deputy speakers, and chairpersons of Duma committees was announced:[135]

CPRF

Speaker	Gennadi Seleznev
Deputy Speaker	Petr Romanov
Economic Policy and Entrepreneurship	Sergei Glaziev
State-Building	Anatoli Lukyanov
Industry, Construction, and High Technology	Yuri Maslyukov
Labor, Social Policy, and Veterans' Affairs	Valery Saikin
Federation Affairs and Regional Policies	Leonid Ivanchenko
Education and Science	Ivan Melnikov
Women, Family, and Youth Affairs	Svetlana Goryacheva

Nongovernmental and Religious Organizations Affairs	Viktor Zorkaltsev
Culture and Tourism	Nikolai Gubenko
Unity	
First Deputy Speaker	Lyubov Sliska
Deputy Speaker	Boris Gryzlov
Property	Vladimir Pekhtin
Energy, Transportation, and Communications	Vladimir Katrenko
Security	Aleksandr Gurov
Natural Resources and Their Use	Aleksandr Belyakov
Environment	Vladimir Grachev
Local Self-Government	Vladimir Mokryi
Regulation and Organization of Duma Work	Nikolai Loktionov
Fatherland-All Russia (FAR)	
Deputy Speaker	Georgi Boos
CIS and Russian Diaspora Affairs	Boris Pastukhov
Union of Right-Wing Forces (SPS)	
Deputy Speaker	Boris Nemtsov
Legislation	Pavel Krasheninnikov
People's Deputy Group	
Deputy Speaker	Vladimir Averchenko
Credit Organizations and Financial Markets	Aleksandr Shokhin
Defense	Andrei Nikolaev
Foreign Affairs	Dmitri Rogozin
Health and Sports	Nikolai Gerasimenko
Problems of North and Far East	Valentina Pivnenko
Russian Regions	
Deputy Speaker	Artur Chilingarov
Budget and Taxes	Alexander Zhukov
Agrarian-Industrial Deputies' Group	
Deputy Speaker	Gennadi Semigin
Agrarian Issues	Vladimir Plotnikov
Nationalities	Alexander Tkachev
Yabloko	
Deputy Speaker	Vladimir Lukin
Zhirinovsky Bloc (LDPR)	
Deputy Speaker	Vladimir Zhirinovsky
Information Policy	Konstantin Vetrov

At first glance, perhaps the most disturbing appointments in the new Duma were those of Sergei Glaziev and Yuri Maslyukov to the chairs of the powerful Economic Policy and Industrial Committees respectively. It might be noted, however, that Maslyukov's bark was much worse than his bite when he served as first deputy prime minister under Primakov and that the new program of the CPRF published before the December 1999 Duma election—of which Glaziev was reported to be the author or a main author—represented almost a volte-face on the 1995 model. It accepted the need for a market economy and foreswore the renationalization of property, any resort to the printing presses, and many other bad habits. By April 2001, however, there were moves to reduce the number of committees from 28 to 12, and to redistribute their chairpersons according to the realignment of the Duma factions.

In its 2001 spring session, the Duma passed a raft of more than 150 bills, including many long overdue building blocks towards the restructuring of the Russian economy. Among them, the principal legislation included: legal reform (1st reading); profit tax (2nd reading); pension reform (1st reading); investment funds (2nd reading); nonagricultural land reform (2nd reading); licensing (1st reading); money laundering (3rd reading) currency repatriation (1st reading); labor code (1st reading); tax on mining (1st reading); and bankruptcy of banks (2nd reading).[136] For most of these, third readings and the passage of laws are expected by year's end. The principal exceptions may be legislation on judicial reform and licensing: both of these threaten the ability of countless bureaucrats to exact bribes and thus will face stiff opposition. In its fall 2001 session, the Duma is expected to initiate legislation on pension reform, housing and communal services, banking, utilities, and the customs code.

Limits to Economic Growth

The Russian GDP grew by 8.3 percent in 2000—the highest rate of growth in over 30 years. In 2001, economic growth of around 5.7 percent is expected. In November 2001, President Vladimir Putin still enjoyed an approval rating of over 70 percent, which argues for a sustained period of political stability after a decade of turmoil. Unlike Yeltsin, the president has a compliant and constructive Duma that has approved most of his legislative proposals. It will be even more cooperative if the proposed merger of Unity, Fatherland, and All Russia takes shape on December 1 and if the mooted grand alliance of Unity, FAR, People's Deputy, and Russia's Regions is formed. He has virtually emasculated the Federation Council. During meetings with most of the leading oligarchs in the summer of 2000 and January 2001, Putin appeared to have reached a *modus operandi* with most of them, offering to halt legal proceedings and inquiries against them and promising no deprivatization on the understanding that they will pay their taxes, improve their behavior, and stay out of government. On the international stage, the president has earned plaudits from just about all of the world's leaders. His mishandling of the Kursk disaster temporarily dented his approval ratings, but these recovered quickly.

Putin's overwhelming priority is to restore Russia's position in the world as a major power. For this to happen, the Russian economy must grow at a sustained high rate, which in turn, requires a substantial increase in domestic and foreign direct investment. The president has repeatedly acknowledged that the current investment environment is poor, owing largely to the loss of confidence after the devaluation and defaults of August 1998 and the lack of corporate governance and viable PSA provisions, but he has vowed to improve that climate substantially. After more than a decade of virtually uninterrupted decline, the Russian economy started to recover in 1999 with a 3.2 percent growth in GDP, and a vigorous 8.3 percent rise in 2000. This upturn was attributable mainly to the August 1998 devaluation and subsequent import substitution effect; continuing high world prices for oil and for some other Russian export items; the statistical base effect; some restructuring, notably an appreciable increase in the share of cash transactions between enterprises (from 46 percent in 1998 to 82 percent by April 2001); lower interest rates; higher tax collection rates; a substantial (almost 40 percent) decline in real wages that led to decreased costs and higher profitability; and a recovery in domestic and foreign investment. The federal budget registered a healthy surplus in 2000. The Kasyanov administration claims that Russia will be able to service its foreign debt from its own resources in 2001–2003. A substantial increase in private consumption was registered in 2000 and continues in 2001. In its spring session, the Duma passed an unprecedented amount of legislation underpinning structural economic reform, and many more laws are scheduled for discussion before the end of the year. Yet against all of the above positive factors must be set the shrunken size of the Russian economy and the constraints on sustained and sizeable growth.

The Russian GDP in 2000 amounted to 7,063 billion rubles. At an official annual average rate of exchange of 28.2 rubles to the dollar, this was equivalent to $250.5 billion, or about 2.5 percent of the U.S. GDP of over $10 trillion. At purchasing power parity, according to the World Bank, Russia's GDP in 2000 was $1,014 billion, or roughly one-tenth of that of the United States. The GDP in 2001 is expected to grow to about $300 billion.

Now it is evident to any visitor to Moscow or any other Russian city that a great deal of economic activity goes unrecorded (and untaxed). The official Russian statistical authority, Goskomstat, is aware of this gray, black, or shadow economy, and factors in an additional 25–30 percent of the value of the formal economy to cover its activity. Other estimates go as high as 50 percent. Yet countering this *understatement* of the size of the economy is the fact that up to one fifth of the transactions within it are conducted in the form of barter, the value of which is notoriously *overstated.* So we are looking at an economy in roughly the same ballpark as Spain.

The Russian manufacturing industry now constitutes a gigantic rust belt. The average age of plant and equipment is 16 years[137] (i.e., roughly three times higher than the OECD average). The Institute for Macroeconomic Research established that over 50 percent of fixed assets in 1998 were more than 15 years old and only 4 percent were less than 5 years old.[138] In another formulation, the president of the Bank of Moscow stated that the "indicators of wear" of fixed production capital are discouraging—from 60 to 75 percent.[139] Little has been done to restructure this core manufacturing sector. The only Russian manufactured products that are, generally speaking, competitive on the world market are military hardware, nuclear power plants, and space engineering. The domestic demand for these products is severely restricted by budgetary constraints, and the overseas market is limited. After decades of neglect, the infrastructure—roads, railways, pipelines, power lines, water supply, sewers, and the Ostankino television tower—must also be renewed. The entire urban infrastructure is said to be "at the edge of catastrophe," with the number of breakdowns per 100 kilometers of pipes and wiring risen to 70, compared with fewer than 10 in European countries.[140] Russian pipelines—most of which are older than their design life—lose an estimated 17-20 million tons of oil into the ground and rivers each year.[141]

To update or replace this aged plant and equipment, and to renew the infrastructure, will require trillions of dollars. (The McKinsey Global Institute report asserted that Russia has enough excess capacity to support stable economic annual growth of 8 percent, but much of this capacity is technologically obsolete and held back by the degenerated infrastructure). Yevgeni Yasin estimated that Russia will need some $2.5 trillion in investment during the next 20–25 years, of which about one-quarter will have to come from abroad.[142] It has been estimated that UES alone will need $50–70 billion simply to renovate its power stations to avoid power shortages.[143] The EBRD has suggested that $225 billion will be required over the next 10 years to develop Russia's share of Caspian oil.[144] Other claimants are Kaliningrad, requiring perhaps $36 billion over the next decade,[145] and the railways needing $28 billion over the next five years.[146] For comparison's sake, the American Society of Engineers has called for $1.3 trillion to be invested in America's infrastructure during the next five years.[147]) But the domestic money supply M2 (currency in circulation, demand deposits, and time deposits) in July 2001 was reported to be only 1,330.2 billion rubles ($45.1 billion), while the estimated $16 billion in hard currency (now stored largely under mattresses) is unlikely to be entrusted to domestic banks until or unless Western banks are given guaranteed and secure access to the Russian retail banking system and provided with sufficient incentive to do so.

Russia registered a current account surplus of $46 billion in 2000, which was partly offset by the amount of capital flight. Little of the estimated $150 billion of flight capital since 1991 is expected to return to Russia in the short term. Total domestic investment—mostly retained profits—in 2000 was estimated at 970 billion rubles, or $34.3 billion at the official rate of exchange,[148] with about one-half of that needed by the fuel and energy sector just to maintain current levels of production.[149] (The productive investment element of this total is roughly one-sixth of the 1990 level, while nonproductive investment has shrunk by a factor of three). Much of the core manufacturing capacity is value subtracting, and only 5 percent of industrial output comes from small- and medium-sized enterprises, which are the engines of growth in Poland and in some other transition economies. A sizeable share is located above the Arctic Circle. Fixed capital investment in 2001 is expected to rise to some $40 billion, whereas an estimated

$70–100 billion would be needed to maintain output growth.[150] Much of the investment capital required must therefore come from abroad in the form of FDI.

Russia is currently attracting less than one-half of 1 percent of the world's FDI. In 2000, FDI in Russia amounted to $4.4 billion, out of a global total of $1,270 billion. (China drew some $46 billion). The reasons are well known. They include capricious and exorbitant taxes, political instability, virtual absence of corporate governance, the lack of commercial infrastructure, corrupt customs, poor protection of property rights, pervasive corruption, and the depredations of organized crime. This hostile environment will take years to correct. FDI in Russian manufacturing capacity could well grow substantially in the near future, but will remain inadequate A state investment agency is to be set up with the aim of attracting FDI.[151]

With domestic and foreign capital wholly inadequate to finance the necessary reconstruction and reequipment of the manufacturing sector, former first deputy prime minister Yuri Maslyukov promised, until he was fired in May 1999, that a state investment bank would provide the necessary funding. But the draft federal budget for 2002 provides for expenditures of only $61.8 billion at an average annual exchange rate of 31.5 rubles to the dollar. After the anticipated boosting of defense expenditure, much of the discretionary government funding for the foreseeable future may increasingly have to be devoted to countering the acute deterioration of the nation's health, to combating environmental degradation, and to restoring an educational system that was perhaps the most positive legacy of the Soviet era.

As in other economies, industry no longer provides the bulk of the nation's output (currently 33.4 percent of GDP[152]). But Russia is also lagging in the provision of services. In October 2000, for instance, it was reported to have only 3.4 million core Internet users,[153] while the poor quality of telephone lines reduced the time spent online.

What is known about future demographic trends and the current and projected condition of the nation's health suggest further downward pressure on productivity and output. The salient findings of a recent authoritative study, *Russia's Physical and Social Infrastructure,*[154] make for sobering reading. The Russian population is expected to decline from 145 million today to perhaps 135 million by 2015 and to perhaps 100 million by 2050. (By 2050, the U.S. population is projected to grow to 400 million). In his state of the nation speech of July 2000, President Putin called the decline of the population by some 750,000 a year to be "the gravest threat to Russia." The total fertility rate in Russia (i.e., the average number of children that a woman has over her lifetime) is currently at 1.17, whereas the replacement level is 2.14. The population of working age is expected to rise through 2005, then decline through at least 2017. More than 12.5 percent of the population is more than 65 years of age, while more than 7 percent is defined by the UN as aged. Immigration has probably peaked and is currently running at around 400,000 a year. By 2015, the dependency ratio will be 4 workers for every 3 nonworkers, which suggests downward pressure on capital investment. The median age by 2015 will grow to over 40 years, which implies lower productivity.

An authoritative picture of the nation's health, entitled "Russia's Population Meltdown,"[155] portrays a disaster that has already arrived. Alcohol abuse is rampant. High rates of abortion—still the primary means of birth control—result in rising rates of infertility: 30 percent of women of child-bearing age are infertile. Only one in five births results in a healthy child. The officially registered cases of HIV in 2000 came to "almost 46,500,"[156] but many believe the true figure to be anything from 10 to 100 times higher. Even if treatment costs can be brought down to third-world levels, relatively few HIV cases can be treated on the $4 million allocated in 2000. In 1999, 29,000 died from TB (i.e., about 30 times the proportional U.S. rate). There are currently 83 new cases per 100,000 of population (i.e., 12 times the U.S. rate). As many as 20,000 may have multi-drug-resistant TB. Cardiovascular diseases are twice the U.S. rate; there is a high incidence of poisoning from heavy metals and other toxic materials; frequent industrial accidents (6,000 in 2000[157]); high rates of hepatitis B and C, measles, typhoid, and diphtheria; and suicide rates well above the OECD averages.

Even without considering the implications of the shocking demographic and health indicators, the scale of capital required for the massive reequipping and replacement of Russia's manufacturing industry and infrastructure is not in sight. With its vast natural resources and its highly educated workforce, Russia's economy may well experience the boom or *chudo* (miracle) predicted for it by some observers. This will not, however, happen anytime soon. More specifically, during the next 10 years or so, Russia's economic growth is very unlikely to attain the 10-percent annual average called for by President Putin on several occasions, or even the 5-percent annual average projected by the Gref program. We suggest that the average annual growth for the next few years will be not higher than 4 percent, given an average price of about $16 p/bbl for Urals Blend.

What would such rates of growth imply? For Western businessmen and investors, the good news is that Russia's foreign trade turnover is expected to continue to grow, although the rate will depend greatly on world prices for oil and gas. Foreign direct investment and portfolio investment are also expected to increase substantially from their current low levels; indeed, FDI could double by 2005. Internally, personal consumption may grow just enough to preclude popular discontent, but funds will be lacking to make any significant impact on the nation's appalling health and environmental conditions. And unless the OECD nations experience a prolonged economic recession in the wake of Western reaction to the September 11 terrorist attacks, the gap between the size of the Russian economy and that of the developed nations will continue to grow.

Notes

1 Interfax, April 28, 2001, citing a Goskomstat "revised preliminary figure."

[2] *Russian Economic Trends*, May 2000.
[3] BOFIT, *Russian and Baltic Economies*: *Week in Review*, No. 24, 2000.
[4] Interfax, December 29, 2000.
[5] ITAR-TASS, April 4, 2001, citing Deputy Prime Minister Aleksei Kudrin.
[6] Interfax, December 29, 2000.
[7] UFG, *Russia Weekly Comment*, August 6, 2001.
[8] *Moscow Times*, August 3, 2001.
[9] BOFIT, *Russian and Baltic Economies*: *Week in Review*, No. 52, 2000.
[10] *Rossiiskaya gazeta*, August 23, 2000.
[11] ITAR-TASS, August 23, 2000.
[12] Interfax, March 15, 2001, citing Finance Minister Alexei Kudrin.
[13] Troika Dialog, *Russia Market Daily*, May 24, 2001.
[14] *Moscow Times*, June 26, 2001.
[15] *Rossiiskaya gazeta*, June 3, 2000.
[16] ITAR-TASS, January 15, 1997; cf. *Rossiiskaya gazeta*, April 24, 1996.
[17] *The Russia Journal*, August 3-9, 2001.
[18] *Russian Economic Trends*, No. 1, 2000.
[19] ITAR-TASS, May 22, 2001.
[20] Interfax, February 17, 1997; cf. Interfax, November 15, 1996; ITAR-TASS, October 15, 1996; *Komsomolskaya pravda*, July 17, 1996; *Rossiiskaya gazeta*, August 5, 1995. *Ekonomika i zhizn*, no. 1 (1995) put the multiple in 1994 at 21, but this is thought to have taken into account income that is concealed from taxation.
[21] Interfax, May 3, 2001.
[22] *Moscow Times*, June 26, 2001.
[23] *Trud-7*, July 26, 2001.
[24] *Russian Economic Trends*, July 2001.
[25] *Trud*, August 24, 2001, citing the deputy chairman of Sberbank.
[26] *Profil*, No. 14, 2001.
[27] A person is deemed unemployed if he or she has no job in the preceding week and is available and looking for work.
[28] Troika Dialog, *Russia Market Daily*, May 24, 2001.
[29] *Transition*, April 1997, p. 27.
[30] *Financial Times*, February 6, 1997.
[31] *Rossiiskaya gazeta*, February 25, 2000.
[32] Interfax, February 15, 2001.
[33] IMF Staff Country Report no. 87/63, p. 10; cf. *Rossiiskie vesti*, January 24, 1997.
[34] ITAR-TASS, March 1, 1999.
[35] Joseph R. Blasi, Maya Kroumova, and Douglas Kruse, *Kremlin Capitalism: The Privatization of the Russian Economy* (Ithaca, N.Y.: ILR, 1997), cited in the *Financial Times*, June 19, 1997.
[36] *Financial Times*, May 10, 2000.
[37] *Financial Times*, October 16, 1996.
[38] *Financial Times*, February 24, 1995.
[39] *Vremya MN*, October 22, 1999.
[40] ITAR-TASS, June 16, 1998.
[41] Interfax, August 29, 2001.
[42] BOFIT, *Russian & Baltic Economies: Week in Review*, No. 14, 2000.
[43] *Russian Economic Trends*, February 2001.
[44] ITAR-TASS, March 16, 2001.
[45] *Russian Economic Trends*, February 2001.
[46] *RFE/RL Newsline*, April 5, 2001, citing PlanEcon.
[47] BOFIT, *Russian & Baltic Economies: Week in Review*, 38/2001.
[48] *Financial Times*, September 19, 2001, citing UNCTAD data.

[49] Interfax-FIA, October 27, 1998.
[50] ITAR-TASS, February 23, 2000.
[51] *Journal of Commerce*, November 21, 1996.
[52] Reuters, June 30, 1999.
[53] *Segodnya*, July 14, 1999.
[54] AFP, April 4, 2000.
[55] BOFIT, *Russian and Baltic Economies: Week in Review*, 33/2000.
[56] *Moscow Times*, October 17, 2000.
[57] Jamestown Foundation, *Monitor*, June 28, 2001.
[58] *Rabochaya tribuna*, January 24, 1995.
[59] *Wall Street Journal*, February 15, 1995.
[60] *Rossiiskie vesti*, October 3, 1996.
[61] *Journal of Commerce*, August 21, 1997.
[62] *Wall Street Journal*, August 28, 1997.
[63] *Wall Street Journal*, September 11, 1997.
[64] *Financial Times*, April 3, 1998.
[65] *Journal of Commerce*, August 3, 1998.
[66] Reuters, March 17, 1999.
[67] Harry G. Broadman and Francesca Recanatini, WP. 2640, "Where Has All the Foreign Investment Gone?" July 17, 2001.
[68] *Die Welt*, July 6, 2001.
[69] ITAR-TASS, December 18, 1996.
[70] *Kommersant-Daily*, July 16, 1998.
[71] ITAR-TASS, August 1, 1998.
[72] AP, June 28, 1999.
[73] *Financial Times*, June 29, 2001.
[74] BOFIT, *Russian Economy. The Month in Review*, November 2001.
[75] Interfax, December 14, 2000.
[76] Financial Times, March 29, 2001.
[77] *Financial Times*, August 3, 2000.
[78] *Russia Journal*, July 6, 2001.
[79] RIA, August 28, 2001.
[80] *Financial Times*, October 11, 2000.
[81] Interfax, May 12, 2000.
[82] Interfax, April 25, 2000.
[83] ITAR-TASS, April 3, 2001.
[84] *Wall Street Journal*, August 22, 2001.
[85] *Forbes Magazine*, October 1, 2001.
[86] *Kommersant-Daily*, February 9, 2000.
[87] BOFIT, *Russian & Baltic Economies, Week in Review*, No. 36, 2000.
[88] *Moscow Times*, February 13, 2001.
[89] *Moscow Times*, February 13, 2001
[90] Troika Dialog, *Russia Market Daily*, March 5, 2001.
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[92] CERA, *Russian Energy Watch*, Summer 2000.
[93] For instance, Vremya MN, August 30, 2000.
[94] BOFIT, *The Week in Review*, No. 37, 2001.
[95] Troika Dialog, *Russia Market Daily*, February 9, 2001.
[96] Troika Dialog, *Russia Market Daily*, October 24, 2001.
[97] Troika Dialog, *Russian Market Daily*, November 16, 2001.
[98] Reuters, April 16, 2001.
[99] Reuters, November 18, 1997; cf. Interfax, January 28, 1997; *New York Times*, August 20, 1996.

[100] *Novoye vremya*, June 1, 1999; Interfax, May 16, 2000, and January 15, 2001.
[101] Interfax, April 19, 2001.
[102] Reuters, November 14, 2000.
[103] *Financial Times*, March 31-April 1, 2001.
[104] Interfax-AFI, August 20, 2001.
[105] *Nezavisimaya gazeta*, July 7, 2001.
[106] AP, November 15, 2001.
[107] Interfax, November 18, 2001.
[108] ITAR-TASS, February 21, 2001.
[109] *Moscow Times*, August 10, 2000.
[110] Interfax, June 6, 2001, citing "a high-ranking Finance Ministry official."
[111] Interfax, June 7, 2001.
[112] *Financial Times*, August 22, 2001.
[113] Troika Dialog, *Russia Market Daily*, November 28, 2001.
[114] *Argumenty i fakty*, No. 49, 2000.
[115] Interfax, March 3, 2000.
[116] Interfax, November 15, 2000.
[117] Interfax, August 30, 2000.
[118] *Moscow Times*, July 26, 2001.
[119] *Rossiiskaya gazeta*, May 28, 1998; cf. Interfax, July 3, 1995; *Trud*, January 22, 1998.
[120] ITAR -TASS, November 23, 1999.
[121] *Moscow News*, August 9-15, 2000.
[122] *Christian Science Monitor*, April 17, 2001.
[123] Interfax, April 3, 2001, citing Deputy Finance Minister Sergei Kolotukhin.
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[125] Ibid.
[126] Interfax, April 23, 2001.
[127] *Financial Times*, July 18, 2001.
[128] Polit.ru, August 9, 2001.
[129] Interfax, December 28, 2000.
[130] Interfax, July 9, 2001.
[131] Interfax, December 1, 2000.
[132] Interfax, June 7, 2001.
[133] *Christian Science Monitor*, February 26, 2001.
[134] Interfax, November 13, 2001.
[135] *Nezavisimaya gazeta*, January 21, 2000.
[136] USRBC, *Russia Business Watch*, Fall 2001, citing Troika Dialog.
[137] *Nezavisimoye voennoye obozreniye*, No. 1, 2001, article by Sergei Rogov.
[138] *Kommersant*, July 31, 2000.
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[140] *Argumenty i fakty*, February 21, 2001.
[141] Greenpeace's Russia Statement in Johnson's List, February 16, 2001.
[142] ITAR-TASS, February 23, 2000.
[143] *Washington Post*, September 6, 2000.
[144] Reuters, November 20, 2001.
[145] *Nezavisimaya gazeta*, March 14, 2001.
[146] ITAR-TASS, March 14, 2001.
[147] *Washington Times*, March 9, 2001.
[148] Interfax, May 24, 2000.
[149] BOFIT, *Month in Review*, April 2001.
[150] *Christian Science Monitor*, October 29, 2001.
[151] ITAR-TASS, March 23, 2001.

[152] *Moscow Times*, December 7, 2000.
[153] *Financial Times*, October 4, 2000.
[154] National Intelligence Council and Department of State, *Russia's Physical and Social Infrastructure: Implications for Future Development*, CR 2000-06 (Washington, D.C.: GPO, December 2000).
[155] Murray Feshbach, "Russia's Population Meltdown," *Wilson Quarterly*, Winter 2001.
[156] Interfax, February 6, 2001.
[157] *Vremya MN*, February 6, 2001, citing First Deputy Economics Minister Mikhail Dmitriev.